98-178

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December 21, 1998

HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation

In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Pursuant to Section 706 of the Telecommunications Act of 1996

CC Docket No. 98-146

Dear Ms. Salas:

On behalf of John Doerr of Kleiner Perkins Caufield & Byers, at the request of James Casserly, senior legal advisor to Commissioner Susan Ness, I today sent copies of the attached slides to Commissioner Ness and her legal advisors. I also provided copies to Chairman William E. Kennard, Commissioner Harold Furchgott-Roth, Commissioner Michael Powell, Commissioner Gloria Tristani, and the FCC staff indicated below. Mr. Doerr met with Chairman Kennard and Commissioners Ness, Furchtgott-Roth, and Tristani and their respective legal advisors on December 9, 1998. The slides reflect the points he made at the meetings. I also provided the Commissioners and the staff with a copy of a letter that Mr. Doerr presented at those meetings, which urges the Commission to refrain from imposing new regulations on broadband networks deployed by entities that lack the market position of traditional telephone companies.

While the above-captioned proceeding is exempt from the ex parte rules, I am providing two copies of the attachments for inclusion in this docket.

Sincerely,

Howard J. Symons

cc: Kathryn Brown
Thomas Power
James Casserly
Anita Wallgren
Linda Kinney
Paul Misener
Kevin Martin
Helgi Walker
Kyle Dixon
Jane Mago
Paul Gallant
Rick Chessen
Larry Strickling
John Berresford
Dale Hatfield
Stagg Newman
Robert Pepper
Thomas Krattenmaker
Deborah Lathen
Royce Dickens
John Norton
John Doerr

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December 9, 1998

Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Ex Parte Presentation
CC Docket No. 98-146

Dear Mr. Chairman:

We are writing to you regarding the Commission's important effort to encourage the deployment of broadband networks.

While we are involved in many different types of businesses, we all share a strong interest in making sure high speed broadband networks are built out as quickly and widely as possible. All our businesses will benefit from the deployment of these networks. Just as important, such deployment would catalyze numerous social benefits in education, health care and other public services.

We know the Commission is currently evaluating several different actions that will affect the speed and ubiquity of the deployment of broadband networks. In light of those proceedings we would like to offer two observations.

1. The Marketplace is Building Multiple Competitive Broadband Networks, but Needs to Move Faster.

Over the last several years a broad array of providers has invested billions of dollars to create new broadband networks. We are just beginning to see the fruits of that effort, as incumbent and competitive telephone companies, long distance carriers, cable companies, wireless providers, satellite companies, and utilities are now beginning to offer broadband services.

The Commission can rightly take pride in its limited but important role in these developments. For example, it was Commission action that led directly to the creation of new billion dollar companies such as WinStar and Teligent. Similarly, the Commission recently took action to enable wireless cable companies to provide high-speed data transmission.

Significantly, the government action in these instances was limited to making spectrum available to these parties. The Commission then wisely stepped back and let the companies figure out the best way to offer services to the public.

This hands-off approach is right and is beginning to work, but we need to move faster. The emergence of these broadband networks, and the plans for more, should give the Commission comfort that marketplace forces will bring the public the benefits of vibrant competition envisioned by the authors of the Telecommunications Act of 1996. The Commission should ensure that the new multiple broadband networks are not shackled by burdensome new regulations.

2. The Government Should Avoid Actions That Will Dampen the Willingness of Financial Markets to Finance the Construction of Broadband Facilities.

It is a simple but undeniable reality that new and unnecessary regulations will diminish the willingness of capital markets to finance the construction of new broadband networks.

This is true for a number of reasons. As a threshold matter, such investments are very risky and lack any guaranteed return. Government regulation would actually limit the return on investment, and cause investors to be less willing to risk the billions of dollars necessary to build out the networks. Government intervention is particularly misplaced in the case of new broadband networks deployed by entities that lack the market position of the traditional telephone companies. Not only is broadband investment in its infancy, there is plenty of competition from existing networks and there will be plenty of competition from emerging networks. Further, the uncertainty created by even potential government regulation increases the cost of capital for new networks.

We share the Commission's view that the public interest will be best served by the deployment of multiple broadband networks as widely as possible. But that goal will only be realized if the Commission maintains a "hands off" approach that trusts markets to determine how the emerging broadband networks will be built and utilized.

Sincerely,

Leslie L. Vadasz
Senior Vice President
Intel Corp.

John T. Chambers
President and CEO
Cisco Systems

Dr. Eric Schmidt
Chairman and CEO
Novell, Inc.

Eckhard Pfeiffer
President and CEO
Compaq Computer Corporation

Peter D. Fenner
President and CEO
COM21, Inc.

Christopher G. Caine
Vice President, Governmental Programs
IBM Corporation

C. Richard Kramlich
Partner
New Enterprise Associates

John Doerr
Partner
Kleiner Perkins Caufield & Byers

Roger McNamee
Partner
Integral Capital Partners

Jim Breyer
Partner
Accel Partners

Gary Griffiths
CEO
SegaSoft Networks, Inc.

Ric Fulop
President
Arepa Inc.

Kevin Bermeister
President
Brilliant Digital Entertainment

cc: Hon. Susan Ness
Hon. Harold Furchtgott-Roth
Hon. Michael Powell
Hon. Gloria Tristani

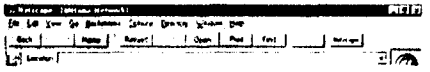
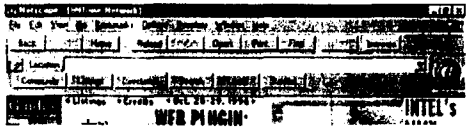
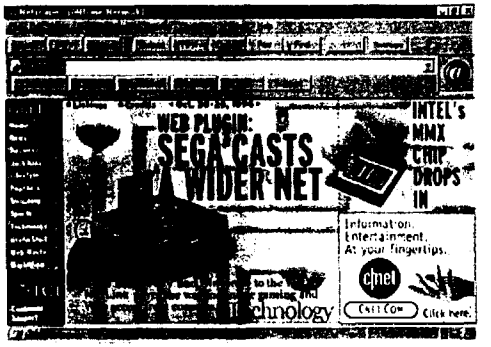
A Silicon Valley Perspective

on the Internet Access Market:

How do we make more and better choices available faster for all Americans?

December, 1998

Broadband Speed Enables New Capabilities

Narrowband	Midband	Broadband
28.8 Kbps	128 Kbps	1.5–10 Mbps
		
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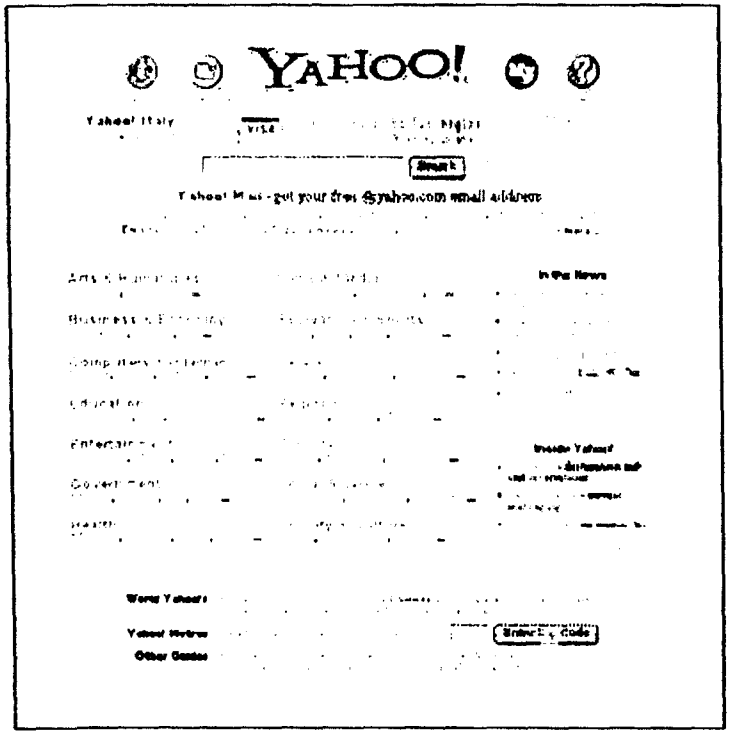
(Download Time 1 MB)

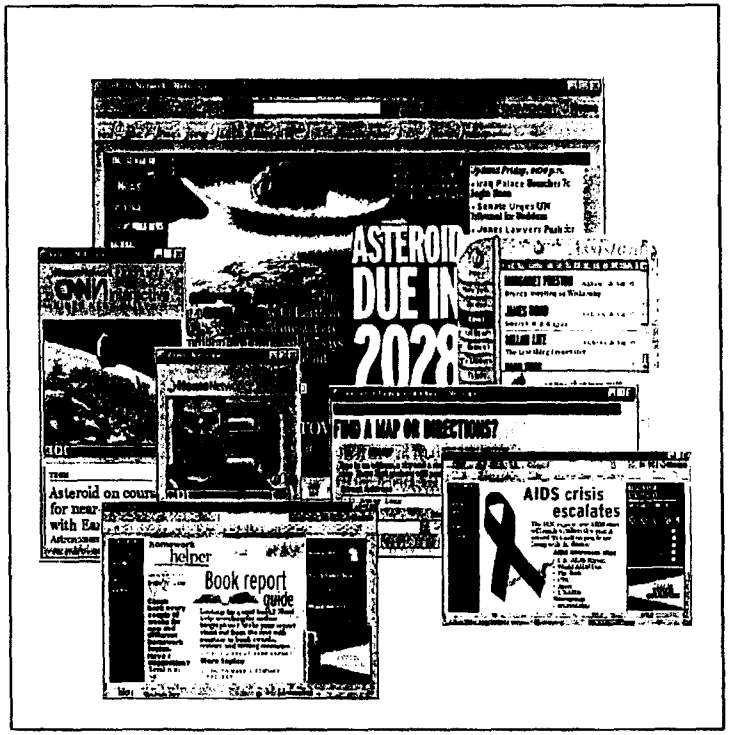
- **EDUCATION** distance learning | interactive, multimedia courses
- **HEALTH CARE** collaborative medicine | healthcare info network
- **COMMERCE** electronic commerce | digital distribution
- **INFORMATION** information driven economic growth

Narrowband vs. Broadband Experience

Narrowband



Broadband



Broadband offers an entirely new user experience -- including highly interactive multimedia, real-time audio and video, and speed-enabled applications.

Customer Satisfaction

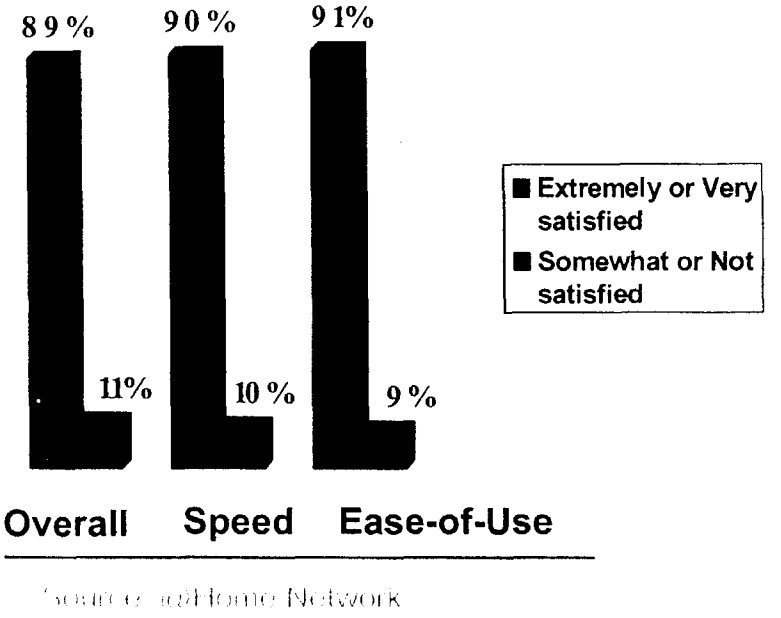
Broadband Example: @Home

Customer Testimonial

"The only way you'll get this service out of my house is when you pry it from my cold, dead hands"

- George Schaft
@Home customer
Fremont, CA

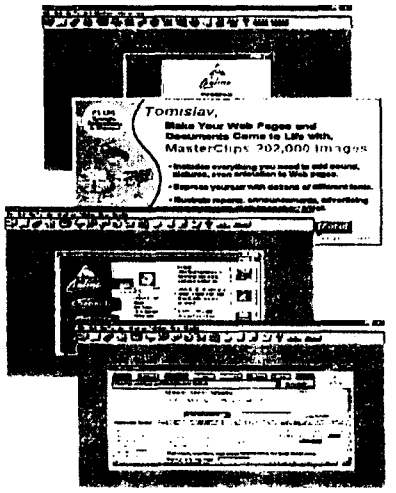
Customer Satisfaction



Source: @Home Network

Efforts to Access the Web

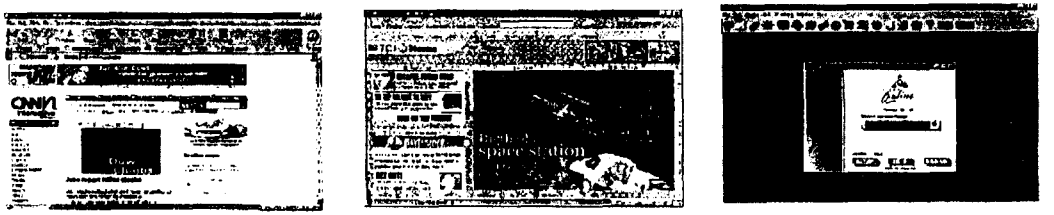
AOL: 4 Steps



AOL: Four Steps to the Web

1: User starts AOL and receives sign-up page.
2: AOL advertising (i.e. product offer or credit card offer).
3: AOL home page.
4: User selects "Web button" and initiates Microsoft browser.

Broadband: 1 Step



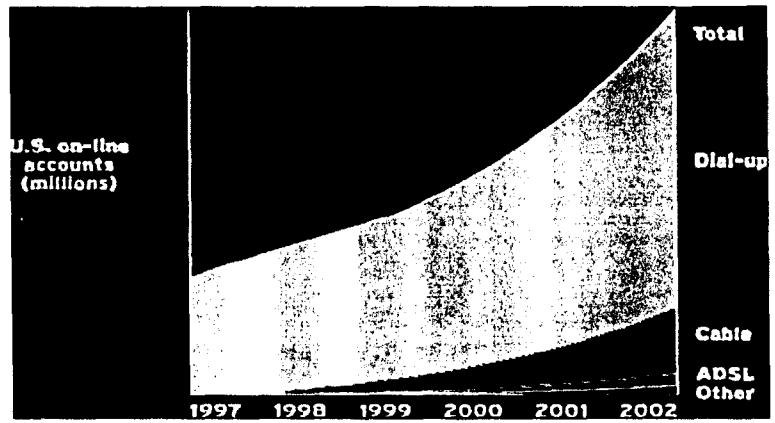
Broadband: One Step to the Web or AOL

1: @Home example: User clicks on a desktop icon to go to broadband service home page, web home page, or AOL. Any client software compatible with TCP/IP networks can be used.

Broadband is easier and open to the entire web: consumers have unlimited and unrestricted access.

Internet Access Market Still is and will be Dominated by Narrowband Solutions

Internet Household and Account Growth



Source: Forrester Research, Inc.

	1997	1998	1999	2000	2001	2002
Dialup	22.7	27.7	32.5	39.8	47.3	60.0
Cable Modem	0.1	0.7	2.0	4.3	7.8	13.6
ADSL	--	--	0.2	0.4	1.0	2.2
ISDN/Wireless/Other	0.1	0.3	0.6	0.8	1.0	1.8
Total (M)	**22.9**	**28.7**	**35.3**	**45.3**	**57.1**	**77.6**
Total Consumer Spending ($B)	$4.9	$6.5	$8.6	$11.5	$15.9	$21.8

Broadband Competition

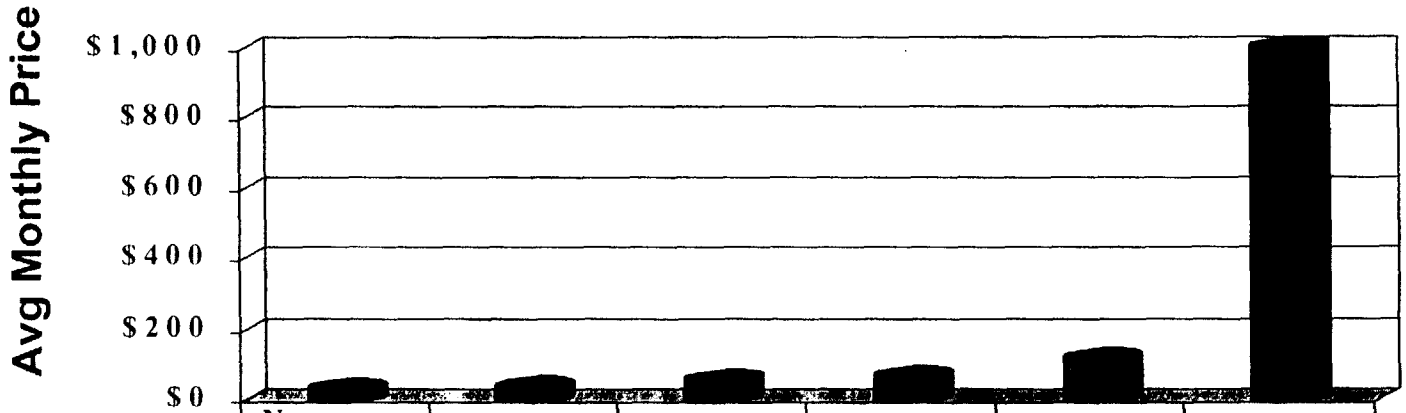
Cable vs. DSL Service Launch Dates for Selected U.S. Markets

Market	@Home Launch Date	DSL Service Provider	DSL Launch Date
Phoenix	May 1997	US WEST	October 1997*
New Jersey	March 1997	Bell Atlantic	November 1998
Philadelphia	June 1997	Bell Atlantic	November 1998
SF Bay Area	September 1996	Pacific Bell	November 1997
Denver	June 1998	US WEST	June 1998
Orange County	Dec. 1996 (Cox) July 1997 (Comcast)	Pacific Bell	September 1998
San Diego	May 1997	Pacific Bell	September 1998

* *Aggressive marketing of DSL service began in March 1998. Marketing efforts have been sporadic due to operational issues*

In markets where broadband is offered, competition is working!

Internet Access Today:
Competitive Pricing & Features



	Narrow band	Cable	ISDN	xDSL	Satellite	T-1
Avg Monthly Price	$35	$40	$60	$70	$120	$1,000
Burst Speed (Kbps)	**56**	**2000**	**128**	**1500**	**400**	**1500**
Features	Dedicated unlimited use ubiquitous	Shared unlimited use limited availability	Dedicated Pay per use major availability	Dedicated Pay per use limited availability	Shared Pay per use ubiquitous telco-return	Dedicated unlimited use ubiquitous

***Features & prices vary widely - Cable modem & satellite prices include customer equipment; AOL price includes $15 extra line charge**

Who will win this Horserace?

Experts Disagree

"When you talk about getting out to residences and having high-speed two-way connections, the primary hope within the next five years is DSL."

- Bill Gates, CEO, Microsoft (12/7/98)

Only one winner is certain from this kind of betting: consumers.

"No one technology is a clear leader though broadband satellites faired quite well versus the competing technologies, because of Pioneer's belief that satellites match the goals of the internet."

- Pioneer Consulting Group

"Broadband will complement, not replace narrowband."

- Robert Pittman, President, AOL

"Cable modems will outpace DSL connections by two-to-one."

- Jupiter Communications

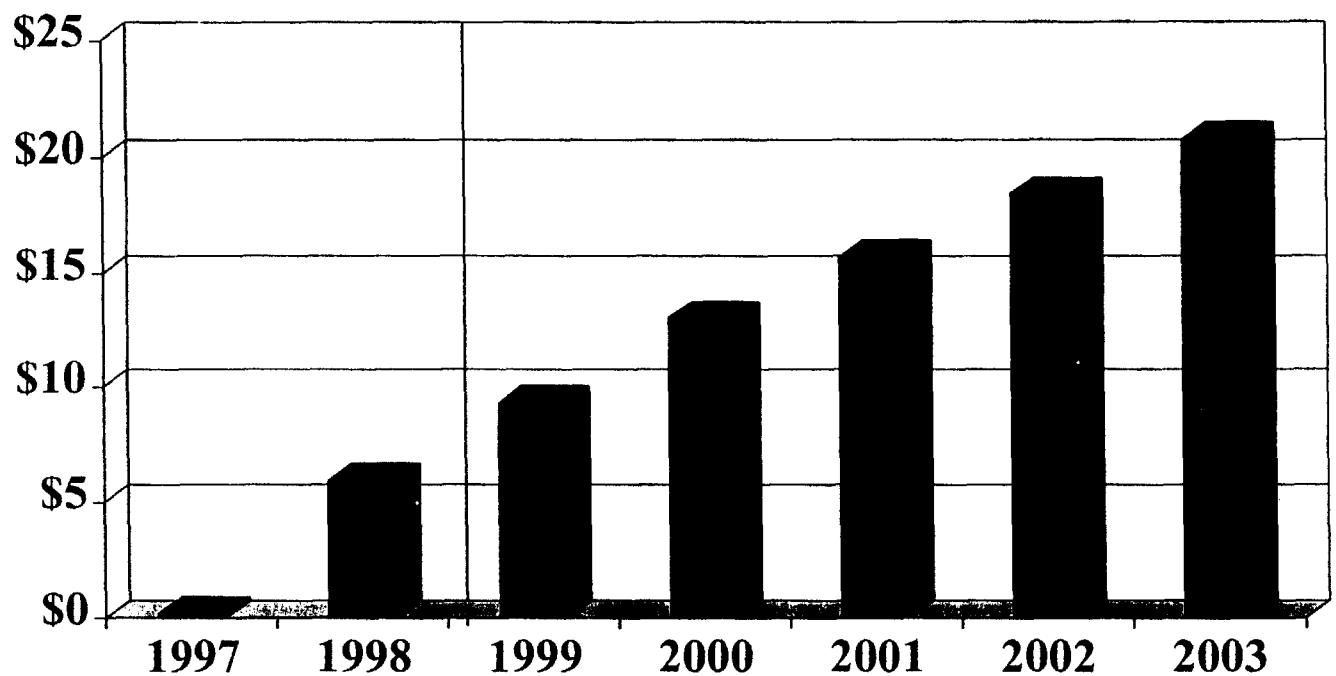
The Steps Required to Upgrade to Broadband

Cable Plant Upgrade Steps

- Design HFC Network
- Install Fiber Cable
- Install Laser Transmitters
- Install Optical Receivers in Headend
- Design and Install Headend Splitting and Combining Network
- Replace all Active Components
- Upgrade Passive Components (Every Pole or Pedestal in the System)
- Re-power RF Plant
- Replace Aging Coaxial Cable
- Schedule Node Cutover Outages
- Balance and Align Forward System
- Activation, Balance and Alignment of the Reverse System
- Replace Subscriber Drops as Necessary
- Install New Customer Premise Equipment as Needed

Current & Future Investment At Risk

Broadband Internet Over Cable
Cumulative Investment ($B)

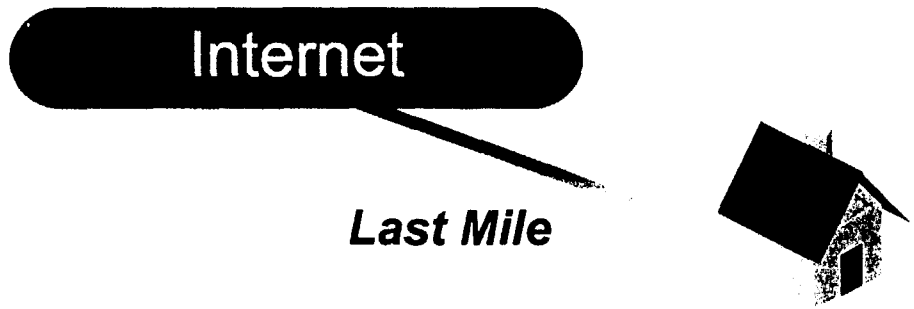


Source: Paul Kagan, 8/98 & Cost Estimates from @Home; includes modem equip.

Cable has invested $6B to date - still need $15B by 2003 to reach 57% homes upgraded - $31B for 100%

Narrowband vs. Broadband Investment

Infrastructure Costs of "Last Mile"



Investment To Upgrade Last Mile

	Capital Investment	Modem	Installation
Broadband cable access (per house)	$300	$300	$100
10% Penetration	$3000	$300	$100
Narrowband	minimal	none	none

Broadband via cable requires approximately $3400 investment per subscriber

Economic Effect of Unbundling

"You'd never invest in broadband plant if you were not allowed to bundle services ."

"Without the economies of scale from bundling, the only way to achieve satisfactory margins and return on investment is to increase the price of one or more of the unbundled services ."

- Richard Bilotti

Managing Director, Dean Witter Morgan Stanley

#1 rated cable analyst* on Wall Street

***rated by Institutional Investor**

Conclusion

How do we make more and better choices available faster and for all Americans?

Let the Market Continue to Build Multiple, Competitive Broadband Networks.

The Government Should Avoid Actions That Will Deter The Private Investment Required To Build These Broadband Networks.